

13 July 1960

MEMORANDUM FOR THE DIRECTOR

SUBJECT: TAPLINE Problems with Syria

1. TAPLINE, whose ownership is the same as that of ARAMCO, runs the 750 miles long pipeline which carries Saudi Arabian crude oil to the Lebanese port of Sidon. The Pipeline has a capacity of about 460,000 b/d. It has recently been moving less than 300,000 b/d, which at current rates is just about enough to cover costs. TAPLINE also supplies 4,000-5,000 b/d crude to the new Jordanian refinery at Zarqa, and somewhat more for the Syrian refinery at Homs. The latter represents about one half of Syria's total crude imports. Last year TAPLINE paid about \$1.2 million to Syria, \$1.2 million to Lebanon, and \$900,000 to Jordan for transit rights.

2. At the moment, Syria owes TAPLINE about \$4 million for crude supplied to the Homs refinery and is insisting that TAPLINE continue to supply crude on credit through 1961. In addition, Syria is demanding a heavy upward revision of TAPLINE's transit payments

25X1

to conform to a more favorable arrangement Syria recently worked out with the Iraqi Petroleum Company for its pipeline. TAPLINE has responded by announcing that it will stop supplying crude oil to Syria on credit as of 1 August.

3. This raises two interesting questions. The first is whether or not Syria will retaliate by closing down all of TAPLINE's operations. The Minister of Economy of the Syrian region has said that he will close down TAPLINE if credit is cut off. TAPLINE officials indicate they do not think a shut down is inevitable but they are clearly worried. Although Hakeiriya Mohiuddin has said the the UAR leadership does not intend to interfere in what he calls a matter between Syria and TAPLINE, the decision will almost certainly be made in Cairo.

4. For a number of reasons, the UAR might look with favor on a closedown of TAPLINE. Last year, the UAR got about a penny for every barrel that went through TAPLINE. It gets about 10.5 cents for every barrel that goes through the Suez Canal. If TAPLINE were closed, most of the present pipeline through-put would probably go through the Canal. The additional revenue could be used to compensate Syria and perhaps Lebanon on account of loss. The Hama refinery

could probably get its total crude requirement from IPC, which already supplies half of it. Then, too, the UAR leadership would probably get a satisfying emotional kick from telling TAPLINE to go home.

5. At the same time, Basser is almost certainly aware of the unfavorable reaction forcing TAPLINE out would have on private investors throughout the world and on his relations with the US. Probably no one in the UAR hierarchy fully appreciates the distinction between the US government and private US concerns operating overseas. A shutdown would probably also cause the UAR some problems with other Arab countries. He might choose to accept the TAPLINE decision, allow transit arrangements to continue on a tentative basis, and seek an alternate source of crude for the Moss refinery. On balance, however, we think that there is at least an even chance that Cairo will go along with the Syrian desire to close all TAPLINE operations.

6. The second question centers on the consequences of a shutdown of TAPLINE. The intricacies of pricing of oil production and transportation and the availability of alternate sources of supply make it impossible to be confident about the effects of such a shutdown. As best we can determine, it would not upset the present Middle East

oil picture. The Suez Canal is now handling more than 2 million b/d. An additional quarter million would only require one or two more tankers a day. ARAMCO has already established new connections to the Ras Tanura terminal in the Persian Gulf and probably could divert the TAPLISE flow with a minimum of difficulty. Lebanon and Jordan would suffer the loss of their transit revenues, of course, and Jordan would be left with no other ready source of supply for its new refinery.

7. Moving the additional amount of Saudi Arabian oil through the Suez Canal would provide work for a considerable number of tankers, perhaps as many as 100. This might tend to distract the interest being shown by some hungry tanker owners in the possibility of using their idle ships to haul Soviet oil to Cuba. However, in view of the limited amounts of Soviet oil to be sent to Cuba and the large surplus of tankers, the effect of this will be small.

FOR THE BOARD OF NATIONAL ESTIMATES:

JOSEPH W. KENT
Chairman

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